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IN THE

Supreme Court of the United States

OCTOBER TERM, 1972.

No. 72-831

UNARCO INDUSTRIES, INC. AND OVERHEAD DOOR CORPORATION,

Petitioners,

vs.

KELLEY COMPANY, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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December 4, 1972.

THE GUNTHORP-WARREN PRINTING COMPANY, CHICAGO

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Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

The petitioners, Unarco Industries, Inc. and Overhead Door Corporation, respectfully pray that a writ of certiorari issue to review the judgment and opinions of the United States Court of Appeals for the Seventh Circuit entered in this proceeding on September 7, 1972.

OPINION BELOW.

The opinion of the Court of Appeals was reported at 465 F. 2d 1303 (7th Cir. 1972). The opinion of the District Court for the Northern District of Illinois, Eastern Division was not reported and appears in the Appendix hereto.

JURISDICTION.

The judgment of the Court of Appeals for the Seventh Circuit was entered on September 7, 1972. This petition for certiorari was filed within 90 days of September 7, 1972. This Court's jurisdiction is invoked under 28 U. S. C. § 1254(1).

QUESTIONS PRESENTED.

1. Whether federal common law or state law applies to determine the validity of an assignment of a nonexclusive patent license which was made without the consent of the licensor as a part of a sale of assets of an entire business.

2. Whether, assuming federal common law applies, the assignment of a nonexclusive patent license is valid without the consent of the licensor where

(a) The assignment was a part of the sale of assets of an entire business; and

(b) There was never any personal relationship between the licensor and licensee.

3. Whether, assuming state law applies, the law of the State of Illinois allows assignment of a nonexclusive patent license without the consent of the licensor in the context of an overall sale of assets of an entire business.

STATUTORY PROVISIONS INVOLVED.

There are no statutory provisions involved. However, the Seventh Circuit in determining that federal law applied cited Article 1, Section 8, Clause 8 of the United States Constitution and the Patent Act of 1952, 35 U. S. C. § 1 et seq.

STATEMENT OF THE CASE.

The cause was decided in favor of petitioners by the trial court on the basis of stipulated sets of facts, the deposition of Garrett Kelley, chairman of the board of respondent, and related deposition exhibits, and the briefs of the parties. With the exception of certain unsupported factual conclusions reached by the Seventh Circuit on the subjects of forebearance and the competitive relationship of these parties, there are no conflicts as to the factual background of this case.

Petitioner Unarco is an Illinois corporation having its principal place of busines in Chicago (Stip. ¶ 1). It is engaged in manufacture and warehousing of various products. For a number of years one of its businesses was the manufacture and sale of adjustable dockboards (Sup. Stip. ¶ 1). Adjustable dockboards are used at shipping and receiving docks to compensate for height variation between a loading dock and trucks, trailers or railroad cars (Kelley Dep. 4). In this field Unarco was a competitor of respondent which was also engaged in the manufacture and sale of adjustable dockboards (Stip. ¶¶ 5, 6; Kelley Dep. 5).

Both respondent and Unarco had patents relating to various features of dockboards (PX 1, 2, 3). Respondent claimed that Unarco's standard pit type dockboards infringed some of its patents, so in 1964 it filed a patent infringement action against Unarco in the United States District Court for the Middle District of Tennessee, Nashville Division.

In the course of the patent infringement litigation respondent and petitioner Unarco negotiated a settlement agreement which was executed in Chicago on November 30, 1967 (Complt. ¶ 7, Ans. ¶ 5). The settlement agreement provided for the dismissal of the infringement litigation on the basis that no injunctions would issue, that respondent would grant Unarco a nonexclusive license relating to

"standard pit type dockboards" and that Unarco would grant a cross license to respondent under certain other patents relating to dockboards owned by Unarco. Respondent agreed to pay Unarco a flat royalty of one per cent on dockboards it manufactured using Unarco's patent and Unarco agreed to pay a royalty to respondent on "standard pit dockboards on a sliding scale, the first 800 licensed boards annually free; the second 800 requiring a royalty of one half of one per cent; the next 400 requiring a royalty of one per cent; and all over 2,000 per year requiring a royalty payment of four per cent of net sales" (PX 1).

The trial court expressly found

> "Unarco's nonexclusive right 'to make, have made, use and sell dockboards coming within the scope of any claims of any of [respondent's] patents' in exchange for a sliding royalty schedule was not an inherently 'personal' right, nor did it in any way preclude assignment. There was no personal or confidential relationship between Kelley and Unarco at the time of contracting. Indeed, they were competitors and adverse parties to litigation. Nor did Kelley place reliance on any skill, knowledge or ability of Unarco in granting the license. There was no agreement between Kelley and Unarco requiring the latter to make any effort to sell its dockboards or limiting the number of dockboards Unarco could make, have made by another, or sell under the license. In summary, the assignment by Unarco to Overhead Door did not and could not materially affect any burden or risk imposed upon Kelley by the license agreement, nor did the assignment impair the performance of the agreement in any respect." (App. 5)

There was and is absolutely no basis in the record for the Seventh Circuit to conclude that the settlement agreement between respondent and petitioner Unarco and the attendant cross licensing agreement constituted a forebearance. The license agreement itself obtained by peti-

tioner Unarco favored said petitioner and was weak as far as respondent is concerned because of the high number of royalty free sales permitted by the license.*

Two and one-half years later, on August 4, 1969, petitioners Overhead Door and Unarco entered into a contract in which Overhead agreed to purchase Unarco's entire dockboard business and all assets used in connection with it (PX 6, Stip. ¶ 15). Overhead Door agreed to pay $50,000 for the dockboard assets, including equipment, trademarks, drawings, patent licenses (including the license from respondent), customers' lists, etc., plus Unarco's cost for all inventory items, and work in process (PX 6).

After this contract had been executed and delivered, Mr. Skogstad, secretary of respondent, wrote a letter to petitioner Overhead Door stating that:

> "Undoubtedly you are aware of the fact that Unarco was licensed by the Kelley Company under its patents, so as to permit Unarco to manufacture these products.
>
> "Please be advised that such licensing was and is limited to Unarco. This license does not extend to you or to any other party." (PX 8).

Subsequently Unarco executed and delivered the various documents required under the August 4, 1969 contract for the sale of all of its dockboard assets and business, including the assignment of Unarco's rights under the license agreement.

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* If the Seventh Circuit were to draw any conclusions from the nature of that relationship, it should not have concluded that respondent exercised forebearance but should instead have concluded, because of the poor agreement respondent was able to obtain, that respondent had a very weak position. Otherwise, it should have continued with its patent litigation rather than execute a weak, give-away, nonexclusive patent license agreement. The license agreement actually could have permitted over a million dollars in sales before the first royalty had to be paid by petitioner Unarco to respondent (Kelley Dep. p. 23).

A declaratory judgment action was promptly filed by petitioners in the United States District Court for the Northern District of Illinois, Eastern Division, asking the court to declare that the nonexclusive patent license from Respondent Kelley to Petitioner Unarco could be assigned to Overhead Door in connection with the sale of its entire dockboard business without the consent of Kelley. Jurisdiction of the District Court was invoked under 28 U.S.C. § 1332, diversity of citizenship. The District Court held that Illinois and not federal law applied, that the applicable Illinois law favors free assignability of contracts and concluded that the license was so assignable (App. A4-A5). The Court of Appeals reversed stating that federal law applied and that the applicable federal law was that patent licenses were *per se* personal and could not be assigned even as a part of a sale of a business without the consent of the licensor. *Unarco Industries, Inc.* v. *Kelley Company, Inc.*, 465 F. 2d 1303, 1306 (7th Cir. 1972).

REASONS FOR GRANTING THE WRIT.

1. The Decision Below Conflicts with the Decisions of State Supreme and Appellate Courts as to Whether Federal or State Law Applies to Determine the Validity of an Assignment of a Patent License Without the Consent of the Licensor.

In the case of *Farmland Irrigation Company* v. *Dopplmaier*, 308 P.2d 732, 42 Cal. 2d 208 (1957), Justice Traynor of the California Supreme Court held that under *Erie Railroad Company* v. *Tompkins*, 304 U.S. 64 (1938), the assignment of a patent license is governed by state not federal law. In addition, the California Court stated that it was not convinced that the United States Supreme Court today would adhere to a federal rule of nonassignability of such licenses. Justice Traynor stated (308 P.2d at 740):

> "We are not persuaded that the United States Supreme Court would, in view of the modern tendency

in favor of assignability, adhere today to the rule it laid down in Hapgood v. Hewitt. Furthermore, we do not find it necessary or wise to establish a fixed rule, peculiar to patent licenses, that such contracts are not assignable unless made expressly so. There is no reason to exempt these contracts from a general rule adopted to facilitate the freest possible transfer of valuable contract rights, while at the same time respecting the parties' intentions. The federal cases have relied on the flat statement that a license creates a merely personal right. This statement should follow as a conclusion from an examination of the purposes and provisions of the particular license, rather than stand as a self-evident first principle. Nothing in the nature of patent licenses makes the rights conferred by them necessarily so personal that the parties must have intended that they be nonassignable."

Although petitioners argued the *Dopplmaier* at length before the Seventh Circuit, it chose to ignore the case in its opinion.

In *American Manufacturing Company of Texas* v. *Witter*, 343 S.W.2d 943 (Tex. Civ. App. 1961), the appellate court held that the assignment of patent licenses should be analyzed in the same manner as any other contract. The patentee granted an exclusive patent license to Keener, the licensee who in turn granted a sublicense to the defendant. The licensee also assigned to the plaintiff the right to receive royalties from the sublicensee. The plaintiff filed suit to recover unpaid royalties from the sublicensee. The sublicensee defended on the ground that under the terms of the original license agreement, the patentee was expressly granted the right to assign royalties but the licensee was not. Therefore, the defendant argued that the assignment of royalties by the licensee was invalid and that the plaintiff had no standing to sue. In light of its decision below the Seventh Circuit would conclude under these circum-

stances that because of the involvement of patents, federal law should govern and not local contract law under the *Erie* doctrine.

The Texas Appellate court, however, did not analyze the case in terms of any general federal common law. Instead, the court referred to Texas law regarding assignments and contracts. The court analyzed the original patent license agreement and concluded that it was not a personal service contract. Therefore, since in Texas the right to assign was presumed unless it was a personal service contract or there is an agreement to the contrary, the court concluded that "the assignments mentioned were valid and the plaintiffs were proper parties to bring suits thereunder." (*Id.* at 946.)

If the Seventh Circuit had applied local law under the *Erie* doctrine, it would have been compelled to review the findings of fact and conclusions as to Illinois law made by the trial court. The trial court found that the relationship between the parties was not a personal relationship, but that of competitors and protagonists. The trial court concluded that Illinois law espouses free assignability of contracts under such circumstances. The trial court stated (App. A3-A4):

> "While there are no Illinois decisions of record relating specifically to the assignability of nonexclusive patent licenses, Illinois law unquestionably favors the free assignability of nonpersonal contract rights, absent a contractual provision or statute to the contrary. *E.g., In re Estate of Frayser*, 401 Ill. 364 (1948); *First National Bank of Danville* v. *Taylor*, 329 Ill. App. 49 (1946); *Broxham* v. *Borden's Farm Products Co. of Illinois*, 53 F. 2d 946 (7th Cir. 1931)."

Other Illinois Supreme Court decisions establishing the Illinois doctrine of free assignability of contracts of a nonpersonal nature include *Monarch Discount Co.* v. *Ches-*

apeake & Ohio Ry. Co., 285 Ill. 233, 239, 120 N.E. 743, 745 (1918), *Mallin* v. *Wenham*, 209 Ill. 252, 254, 70 N.E. 564, 565 (1904), *State Street Furniture Co.* v. *Armour & Co.*, 259 Ill. App. 589, 596, 177 N.E. 702 (1st Dist. 1931), *aff'd* 345 Ill. 160 (1931).

Even the Seventh Circuit, applying Illinois law, has held that where a contract does not require a party to furnish personal service his performance can be delegated and his right assigned to his personal representative upon his death. *Carlock* v. *LaSalle Extension University*, 185 F. 2d 594, 595 (7th Cir. 1950).

In a footnote to the decision below (465 F. 2d at 307), the court below implies that Illinois law does not favor free assignability and cites *Havana Press-Drill Co.* v. *Ashurst*, 148 Ill. 115, 35 N.E. 873 (1893); *Smith* v. *Preston*, 170 Ill. 179, 48 N.E. 688 (1897); *Rhodes* v. *Ashurst*, 176 Ill. 351, 52 N.E. 118 (1898). Contrary to this implication, these cases do not indicate any *per se* rule against the assignability of patent licenses in Illinois. Aside from the fact that these cases represent 19th Century views of contract law and not the more modern theories as exemplified by *Dopplmaier*, these older Illinois cases still did not invoke any arbitrary rule of nonassignability but examined the relationship between the parties to determine whether or not a particular contract was personal and, therefore, not assignable.

The *Havana-Press Drill Co.* case dealt with an exclusive patent license which would not remain effective if the licensor was forced out of the licensee company. This is exactly what happened and the license reverted to the original owner. The court concluded that the company could not assign the license since by the terms of the license the company was no longer the licensee.

The *Rhodes* v. *Ashurst* case is just the sequel to the *Havana Press-Drill Co.* case and dealt with the royalties aspect. The court was not confronted with the question of the validity of the assignment of a patent license.

In *Smith* v. *Preston*, the Illinois Supreme Court clearly reasserts the rule that the license must be reviewed with a view toward determining whether it is personal in nature and, therefore, not assignable. The Illinois Supreme Court in *Smith* did not look to federal law and rested its determination not on any *per se* rule of non-assignability, but on the personal nature of the specific license therein involved.*

The facts in *Unarco* v. *Kelley* preclude any theory that the patent license was personal. The same factors used by the Illinois Supreme Court in *Smith* would show that the patent license from respondent Kelley to petitioner Unarco was not personal and should be freely assignable pursuant to the general law of assignment of contracts in Illinois.

The present state of the law is best set forth by comparing the decision of the Court below with the reasoning of the Court in the *Dopplmaier* case. This Court should grant certiorari in order to resolve the irreconcilable conflict between these two positions.

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* The court in *Smith* asked, "Was this contract with Preston & Co. [the licensee] one of a personal character?" The court then went on to analyze the various factors that made it personal, noting that Mr. Preston was in effect the company, the company was to use its "best efforts" to sell the product, was to attempt to create a "large demand and heavy sale of this article," and the court also notes that the parties had agreed that Preston and his company would advertise the product and solicit sales through the company's employees. The court answers its initial question by stating that *because of the above factors* this particular contract was personal and, therefore, terminated at the death of Preston. It could not be passed on by the company or anyone else.

2. The Decision Below Conflicts with a Decision of the Court on the Question of the Assignability of a Patent License Where There Is a Sale of a Business.

There was a series of opinions issued by the Court prior to *Erie Railroad Company* v. *Tompkins*, 304 U.S. 64 (1938) relating to the assignability of patent licenses without the consent of the licensor. The series consisted of the following cases: *Troy Iron and Nail Factory* v. *Corning*, 55 U. S. 193 (1852); *Oliver, Finnie & Co.* v. *Rumford Chemical Works*, 109 U.S. 75 (1883); *Hapgood* v. *Hewitt*, 119 U.S. 226 (1886); *Lane & Bodley* v. *Locke*, 150 U.S. 193 (1893). The Seventh Circuit cited all but one of these 19th century cases as support for its conclusion that there is a long standing common law holding that patent license agreements are personal to the licensee and not assignable without the consent of the licensor.

There is a substantial difference between the business world of the second half of the 19th century and the acquisition and merger oriented business world since *Erie*. The *Oliver, Finnie & Co.* case which was the one case in the series which the Seventh Circuit did not cite, involves a typical 19th century business relationship. The 19th century cases restricting free assignability were dependent upon the close personal relationships between the licensor and the licensee. As the Court stated in *Oliver, Finnie & Co.* (27 L.Ed. at 864):

> "The right is granted to Morgan alone, to him personally, with an agreement by him that *he* will enter on the manufacture of the self raising flour, and that he will use all *his* business tact and skill to introduce and sell the flour. It is apparent that licenses of this character must have been granted to such individuals as the grantor chose to select because of their personal ability or qualifications to make or furnish a market for the self raising flour and thus for the acid, all of

> which was to be purchased from the grantor. The license was made revocable by the grantor on the failure of Morgan to perform his covenants and agreements." (Emphasis by the Court.)

The Seventh Circuit was incorrect, however, in citing the opinion of the Court in *Lane & Bodley* in support of a rule prohibiting the assignability of a license without the consent of the licensor. In *Lane & Bodley* the Court expressly refused to follow the restrictive rulings in the earlier cases referred to above. The Court stated:

> "We see no reason to disturb those cases; yet we do not feel compelled to extend their ruling to cover the present case."

The Court held that the successor to a business had an equitable right to an implied license of the rights of its predecessor. Nevertheless, in its decision below the Seventh Circuit chose to ignore this clear exception established by the Court permitting assignment without consent in the context of a sale of a business. It further ignored the fact that petitioner Overhead Door succeeded to the entire dockboard business, good will and assets of petitioner Unarco. In fact, Judge Duffey, the draftsman of the opinion of the Seventh Circuit, chose to punctuate his opinion with pejoratives that have no foundation in the record.* The Seventh Circuit also concluded without any support in the record that Unarco was not a serious competitor. This conclusion was erroneously reached by noting that Unarco never exceeded the minimum number of royalty free dockboards. The fact of the matter is that the trial court expressly found that respondent and petitioner Unarco were competitors (App. 4) and Garrett Kelley, the

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* For example, there is no basis in the record describing petitioner Overhead Door as a Texas *conglomerate* or the implication that petitioner was *circumventing* respondent to grant a license to Overhead Door.

chairman of the board of respondent, so testified in his deposition. (Kelley Dep. 5) The reason the minimum number of royalty free dockboards was never exceeded was that the agreement was so unfavorable to respondent that Unarco was able to sell a substantial number of dockboards before it had to pay any royalties.

Moreover, the *Lane & Bodley* decision which grants an implied license (a formal assignment is not even necessary) of a patent license or a shop right to a successor company along with the other assets of the assignor has been followed by courts in other circuits and has been declared by the authorities and text writers as being the applicable rule of law. *Neon Signal Devices, Inc.* v. *Alpha-Claude Neon Corp.*, 54 F.2d 793, 796 (D.C. Pa. 1931); *Papazian* v. *American Steel & Wire Co.*, 155 F. Supp. 111, 120 (D.C. Ohio 1957); *Wilson* v. *J. G. Wilson Corp.*, 241 F. 494 (D.C. Va. 1917); *Ellis, Patent & Licenses* (3d Ed. Del.) § 419, p. 459; *Restatement of Contracts* § 151(a). The failure of the Seventh Circuit to follow *Lane & Bodley*, and the ensuing conflict with all other cases that expressly followed *Lane & Bodley* is a sufficient reason for the Court to grant certiorari.

The Court should also grant certiorari to re-examine the 19th Century cases relied upon by the Seventh Circuit for the purpose of determining their viability today in the light of modern business transactions. The decision of the Court below places in jeopardy any modern business acquisition, sale or merger which includes any patent license or shop right (unless the transaction takes the form of a sale of stock rather than a sale of assets).

3. The Decision Below Conflicts with the Decision of Another Court of Appeals as to Whether Federal or State Law Should Be Applied to Determine the Validity of the Assignment of a Nonexclusive Patent License.

In the case of *T. B. Harms Co.* v. *Eliscu,* 339 F.2d 823 (2d Cir. 1964), *cert. denied,* 381 U.S. 915 (1965), the issue was whether there is federal question jurisdiction in an action by the alleged owner of certain renewal copyrights against an assignee claiming an interest in the copyright through an instrument recorded in the copyright office which was claimed to be an assignment of the rights of the renewal copyrights. The crucial issue was the validity of a purported assignment. The Second Circuit held that the interpretation of such an assignment even though it dealt with copyright matters was one of state law and, therefore, was not a case "arising under any act of Congress relating to . . . copyrights." In *Harms* the court stated:

> "The cases dealing with statutory jurisdiction over *patents* and copyrights have taken the same conservative line." 399 F. 2d at 826 (Emphasis added.)

The Second Circuit held in *Harms* that the interpretation of an assignment of patent licenses or a copyright does not give rise to federal question jurisdiction. The *Harms* court also held that federal law should not be used to interpret the validity of such assignments and went on to cite Justice Holmes in the case of *American Well Works Co.* v. *Layne & Bowler Co.*, 241 U.S. 257, 260 (1916):

> "In an endeavor to explain precisely what suits arose under the patent and copyright laws, Mr. Justice Holmes stated that '[a] suit arises under the law that creates the cause of action;' in the case *sub judice,* injury to a business involving slander of a patent, he said, 'whether it is a wrong or not depends upon the law of the State where the act is done' so that the suit did not arise under the patent laws." 339 F. 2d at 826.

The decision below states, "We are of the opinion that the question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law", citing 35 U. S. C. § 1, et seq. and the United States Constitution. The Seventh Circuit held that:

> "This monopoly conferred by federal statutes as well as the policy perpetuating this monopoly, so affects the licensing of patents, and the policy behind such licensing is so intertwined with the sweep of federal statutes, that *any question with respect thereto must be governed by federal law.*" (465 F.2d at 1306) (Emphasis added.)

The basis for subject matter jurisdiction in the district court was diversity of citizenship. Since the decision below held that the federal constitution and statutes relating to patents affects and are intertwined with the policy behind patent licensing and the assignment of such licenses, the Seventh Circuit is holding that contract issues involving patents are federal questions governed by federal law.

Accordingly, there is a direct conflict between the Second and the Seventh Circuits as to whether state or federal law should apply in disputes involving patent contracts; in addition, there is a subtle conflict as to whether such patent contract disputes are the basis for federal question jurisdiction.

4. The Decision Below Conflicts with Other Decisions of the Seventh Circuit as to Whether an Assignment of a License in Connection with the Sale of a Business Is Valid Without the Consent of the Licensor.

The Seventh Circuit itself has applied a "successor" rule similar to *Lane & Bodley* in the case of *Brunswick Corporation* v. *Chrysler Corporation,* 408 F.2d 335 (7th Cir. 1969). *See also, J. R. Clark* v. *Jones & Laughlin Steel Corp.,* 288 F. 2d 279 (7th Cir. 1961), *cert. denied,* 368 U.S.

828 (1961). In *Brunswick,* as in this case, patent litigation resulted in the entry of a consent decree and the creation of a nonexclusive patent license. The licensee subsequently sold its line of business which included the patent license to a third party. The successor took the position that since it purchased assets only and was not the corporate successor to the licensee that it was not bound by the terms of the consent decree and was free to contest the patent. The Seventh Circuit held that by reason of the sale of the assets the successor was in privity with the licensee and therefore was bound by the consent decree. Similarly, petitioner Overhead Door as the successor to petitioner Unarco's dockboard business should be deemed bound by the Tennessee consent decree and related patent license. Petitioner Overhead Door is, therefore, entitled to the benefits of that decree and related patent license as well.

Although petitioners cited *Brunswick* in its brief filed with the Seventh Circuit and made substantially the foregoing argument, the Seventh Circuit chose not to refer to *Brunswick* in its decision below. As a result, there has never been a ruling on the application of the principles set forth in *Brunswick* to the facts of this case.

Accordingly, there is a conflict within the Seventh Circuit itself as to whether the successor to an entire business stands in the shoes of its predecessor and is entitled to the benefits as well as the burdens of its predecessor's commitments. Therefore, we urge that this conflict justifies the grant of certiorari to review the judgment below.

CONCLUSION.

For the foregoing reasons a writ of certiorari should issue to review the judgment and opinion of the Seventh Circuit.

Respectfully submitted,

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December 4, 1972.

APPENDIX.

UNITED STATES DISTRICT COURT
Northern District of Illinois
Eastern Division

UNARCO INDUSTRIES, INC., an Illinois corporation, and OVERHEAD DOOR CORPORATION, an Indiana corporation,
Plaintiffs,
vs.
KELLEY COMPANY, INC., a Wisconsin corporation,
Defendant.

No. 69 C 2156

DECISION ON THE MERITS.

The parties have submitted stipulations of fact and briefs on the underlying legal issue in this declaratory judgment action. For the reasons set forth below, this court is of the opinion that judgment should be entered for the plaintiffs.

The jurisdiction of this court is based upon diversity of citizenship among the parties, and the amount in controversy exceeds $10,000. 28 U. S. C. § 1332. The essential facts are not in dispute. In 1964, the defendant, Kelley Company, Inc. (Kelley), a Wisconsin corporation[1] engaged in the business of manufacturing adjustable dockboards used in the handling of freight, filed suit in Tennessee charging one of the plaintiffs, Unarco Industries, Inc. (Unarco), an Illinois corporation,[2] with patent infringe-

1. Kelley's principal place of business is located in Milwaukee, Wisconsin.

2. Unarco's principal place of business is located in Chicago, Illinois.

ment in its manufacture and sale of adjustable dockboards. *Kelley Company, Inc.* v. *Unarco Industries, Inc.*, United States District Court for the Middle District of Tennessee, Nashville Division, Civil No. 3809. In November, 1967, Unarco and Kelley executed a handwritten settlement agreement providing for dismissal of the lawsuit; recognition of the validity and infringement of Kelley's patents by Unarco; release of Unarco for past infringement acts; and the payment by Unarco of a royalty on its annual sales of dockboards after the first 800 sales of "licensed" boards per year at a rate increasing from one-half per cent to four per cent of the net sales price, depending upon the total number sold. Complaint, Exhibit E. Pursuant to the settlement agreement, on January 1, 1968, Unarco and Kelley formally executed a nonexclusive license agreement in Illinois[3] covering the disputed patents. Complaint, Exhibit B.

In 1968, the plaintiff Overhead Door Corporation (Overhead Door), an Indiana corporation,[4] unsuccessfully proposed a merger with, or acquisition of, the defendant Kelley in order to enter the dockboard business. After this attempt failed, Overhead Door then approached the plaintiff Unarco. The plaintiffs reached an agreement on August 4, 1969, which provided that Overhead Door was to purchase the assets used by Unarco's Sturdi-Bilt Division in the manufacture of dockboards, and that Unarco

3. Although the parties have neglected to stipulate where the license agreement was executed, the plaintiffs assert, and the defendant has not denied, that the agreement was executed in Illinois. Therefore, the court will assume that the agreement was executed in Illinois, and that the substantive rights of the parties are governed by Illinois law. *William J. Lemp Brewing Co.* v. *Ems Brewing Co.*, 164 F. 2d 290 (7th Cir. 1947), *cert. den.* 333 U. S. 863 (1946); *Ryan* v. *Napier*, 252 F. Supp. 730 (N. D. Ill. 1966).

4. Overhead Door's principal place of business is located in Dallas, Texas.

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would discontinue the manufacture of dockboards for a minimal period of five years. Plaintiffs' Exhibit 6. The "dockboard assets" sold by Unarco specifically included its nonexclusive patent license agreement with Kelley. Unarco warranted that every patent incorporated into the agreement was assignable without the prior consent of any other person or, if consent were required, such consent had been obtained. Plaintiffs' Exhibit 6, p. 4. Overhead Door agreed to assume and perform all of Unarco's obligations under the Kelley license agreement. Plaintiffs' Exhibit 6, p. 4.

In fulfillment of the agreement to sell its dockboard business to Overhead Door, on October 23, 1969, Unarco assigned "all of its right, title and interest in and to said agreements dated January 1, 1968 between Kelley and Unarco, and all of its right, title and interest in and to said non-exclusive license . . ." to Overhead Door. Plaintiffs' Exhibit 8. However, after reading an article in the *Wall Street Journal* relating to the acquisition of Unarco's dockboard business by Overhead Door, Kelley immediately notified Overhead Door that Unarco's license under Kelley's patents "was and is limited to Unarco." Complaint, Exhibit D. The sole issue before this court is whether the nonexclusive license agreement between Unarco and Kelley was assignable to Overhead Door without Kelley's consent.

The license agreement is silent on the question of assignability. The federal patent laws do not in any manner proscribe or limit the assignability of nonexclusive patent licenses. Therefore, state law must be applied to determine a question which is essentially one of contract rights. *American Manufacturing Co. of Texas* v. *Witter*, 343 S. W. 2d 943 (Tex. Civ. App. 1961); *Farmland Irrigation Co.* v. *Dopplmaier*, 308 P. 2d 732, 739 (1957). While there are no Illinois decisions of record relating specifically to the assignability of nonexclusive patent licenses, Illinois law un-

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questionably favors the free assignability of nonpersonal contract rights, absent a contractual provision or statute to the contrary. *E.g., In re Estate of Frayser*, 401 Ill. 364 (1948); *First National Bank of Danville* v. *Taylor*, 329 Ill. App. 49 (1946); *Broxham* v. *Borden's Farm Products Co. of Illinois*, 53 F. 2d 946 (7th Cir. 1931). Unarco's nonexclusive right "to make, have made, use and sell dockboards coming within the scope of any claims of any of [Kelley's] patents" in exchange for a sliding royalty schedule was not an inherently "personal" right, nor did it in any way preclude assignment. There was no personal or confidential relationship between Kelley and Unarco at the time of contracting. Indeed, they were competitors and adverse parties to litigation. Nor did Kelley place reliance on any skill, knowledge or ability of Unarco in granting the license. There was no agreement between Kelley and Unarco requiring the latter to make any effort to sell its dockboards or limiting the number of dockboards Unarco could make, have made by another, or sell under the license. In summary, the assignment by Unarco to Overhead Door did not and could not materially affect any burden or risk imposed upon Kelley by the license agreement, nor did the assignment impair the performance of the agreement in any respect.

The defendant Kelley relies upon a Supreme Court decision rendered long before *Erie Railroad Company* v. *Tompkins*, 304 U. S. 64 (1938), for the proposition that under the "general federal law" a patent license is a purely personal right which is not subject to assignment without the consent of the patentee. *Hapgood* v. *Hewitt*, 119 U. S. 226 (1886). While the *Hapgood* decision is clearly distinguishable from the instant case on its facts, this court is of the opinion that the decision and its progeny are invalid today because of the mandate imposed upon the federal courts by the Supreme Court in its later ruling in *Erie Rail-*

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road Company v. *Tompkins, supra.* There, Justice Louis D. Brandeis stated the rule on behalf of the Court as follows:

> "• • • Except in matters governed by the Federal Constitution or by Acts of Congress, the law to be applied in any case is the law of the State. And whether the law of the State shall be declared by its Legislature in a statute or by its highest court in a decision is not a matter of federal concern. *There is no federal general common law. Congress has no power to declare substantive rules of common law applicable in a State whether they be local in their nature or 'general,' be they commercial law or a part of the law of torts. And no clause in the Constitution purports to confer such a power upon the federal courts.*" 304 U. S. at 78 (Emphasis supplied.)

This court concludes, therefore, that in the absence of a provision in the agreement between Unarco and Kelley with respect to assignability, their nonexclusive patent license agreement was assignable to Overhead Door without Kelley's consent, in accordance with the general principles of Illinois contract law. *Cf., American Manufacturing Co. of Texas* v. *Witter, supra; Farmland Irrigation Co.* v. *Dopplmaier, supra.*

It is therefore ordered that judgment be, and it is hereby entered on behalf of the plaintiffs.

It is further ordered that the assignment to Overhead Door Corporation by Unarco Industries of its nonexclusive patent license agreement with Kelley Company be, and it is hereby declared valid.

The motion of the Kelley Company for a preliminary injunction is denied, and the cause is dismissed.

/s/ EDWIN A. ROBSON,
Chief Judge.

May 6, 1971.

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A-6

In the
United States Court of Appeals
For the Seventh Circuit

No. 71-1522 SEPTEMBER TERM 1971 — APRIL SESSION 1972

UNARCO INDUSTRIES, INC., an Illinois corporation and OVERHEAD DOOR CORPORATION, an Indiana corporation,
Plaintiffs-Appellees,

v.

KELLEY COMPANY, INC., a Wisconsin corporation,
Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

No. 69-C-2156

EDWIN A. ROBSON, *Judge.*

ARGUED JUNE 7, 1972 — DECIDED SEPTEMBER 7, 1972

Before DUFFY, *Senior Circuit Judge,* DURFEE*, *Senior Associate Judge* and ESCHBACH*, *District Judge.*

DUFFY, *Senior Circuit Judge.* This is a suit for declaratory relief seeking the proper construction of a written agreement. The critical question is whether or not the patent license herein considered was assignable without the consent of the licensor. The District Court held the agreement to be assignable. A motion to restrain production and sale of the patented product pending a decision

* Senior Associate Judge James R. Durfee of the United States Court of Claims is sitting by designation.
District Judge Jesse E. Eschbach of the Northern District of Indiana is sitting by designation.

by the District Court was held in abeyance and finally denied.

The principal product manufactured by Kelley Company, Inc., the defendant herein, is based upon a patent granted to Garrett P. Kelley. The Company produced material-handling equipment known as "dockboard." This product permits the movement of merchandise from the bed of a truck to a loading dock.

In 1964, Kelley became aware that Unarco, a large corporation, was marketing and selling a dockboard which Kelley believed infringed its patented invention.

Kelley Company sued Unarco in the Federal District Court in Tennessee for patent infringement. This litigation became protracted and thus very expensive. Settlement discussions were held, and it became apparent to all that it would be for the best interest of both parties to enter into a nonexclusive license agreement terminating the litigation.[1]

It became apparent that Unarco was not a serious competitor in the dockboard industry. Unarco's principal interest was to use dockboard as a selling tool for its principal product which was shelving. The settlement permitted Unarco to manufacture annually a few hundred dockboards without paying a royalty. While operating under this agreement, Unarco never exceeded the minimum number of royalty-free dockboards anticipated by the parties to the agreement.

Thereafter, the President of a Texas conglomerate named Overhead Door attempted to buy or merge with Kelley Company because of its desire to operate in the dockboard field. No agreement was reached.[2]

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[1] The license agreement pursuant to the settlement between Kelley and Unarco was executed on January 1, 1968. The license provided that Kelley grant Unarco for the entire term of specified patents "a nonexclusive license to make, have made, use and sell dockboards coming within the scope of any claims of any of the said patents." The license further provided for royalties on dockboards produced by Unarco over a stipulated minimum. Also, as part of the agreement, Unarco issued a nonexclusive license agreement to Kelley for two Unarco patents under which agreement Kelley was to pay a royalty.

[2] Appellant Kelley stated in its brief to this Court "This overture and approach by the Texas conglomerate was politely rebuffed."

Overhead Door then contacted Unarco with respect to the possible purchase of Unarco's dockboard division [Sturdi-bilt]. On August 4, 1969, Overhead Door and Unarco entered into a contract whereby Overhead Door agreed to purchase and Unarco agreed to sell Unarco's dockboard business and all the assets used in connection therewith. In this contract, Unarco agreed not to compete for at least five years in the dockboard business with Overhead Door, and furthermore warranted that "Every contract, license agreement or other intangible included among Dock Board Assets is assignable by UNARCO without prior consent of any other person. . . ."

Subsequently, in a letter dated August 13, 1969, the attorney for Kelley was notified by a newspaper article of the contemplated acquisition of the Sturdi-bilt (dockboard) division of Unarco by Overhead Door. Overhead Door was advised by Kelley's attorney that their license agreement for the patents "was and is limited to Unarco."

On October 20, 1969, Unarco and Overhead Door commenced this action in District Court for a declaratory judgment with respect to the assignability of the nonexcusive patent license.[3]

The District Court held that the compromise agreement was a simple contract to be construed under the common law of the State of Illinois. Further, that as Illinois common law views a liberal construction of the assignability of all contracts, the license of the patent was assignable.

Defendant Kelley points out that the nonexclusive license agreement or contract between Kelley and Unarco was not only the result of a compromise settlement but it was, in fact, a forbearance.

Kelley points out that if the judgment of the District Court is sustained, Kelley's refusal to sell out to Overhead Door will be circumvented, and Overhead Door

[3] On October 23, 1969, three days after commencing this action, Unarco entered into an assignment of licensing agreement with Overhead Door, assigning to Overhead all their rights to royalties from Kelley under that agreement for the use of Unarco's patents.

would, indirectly, obtain Kelley's patent rights which Kelley had consistently refused to sell to Overhead Door.

The threshold question before our Court is whether the law of the State of Illinois, where the contested agreement was consummated, applies, or whether determination of this issue in federal court falls within one of the exceptions to the doctrine of *Erie R. Co.* v. *Tompkins,* 304 U.S. 64 (1938) requiring the application of federal common law.[4]

The Supreme Court considered this exception to *Erie* in *Sola Electric Co.* v. *Jefferson Co.,* 317 U.S. 173, 176 (1942). In that opinion regarding patent license litigation, the Supreme Court also considered the application of estoppel and whether estoppel in litigation concerning patent licenses and the Sherman Act was a state or federal question. The Court held that estoppel as applied was a federal question where, if invoked, it would thwart the purposes of statutes of the United States. *Erie* was distinguished in *Sola Electric Co., supra,* by the following passage:

> "It is familiar that the prohibition of a federal statute may not be set at naught, or its benefits denied, by state statutes or state common law rules. In such a case our decision is not controlled by *Erie R. Co.* v. *Tompkins,* 304 U.S. 64. There we followed state law because it was the law to be applied in the federal courts. But the doctrine of that case is inapplicable to those areas of judicial decision within which the policy of the law is so dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes, rather than by local law. *Royal Indemnity Co.* v. *United States,* 313 U.S. 289, 296; *Prudence Corp.* v. *Geist,* 316 U.S. 89, 95; *Board of Comm'rs.* v. *United States,* 308 U.S. 343, 349-50; *cf. O'Brien* v. *Western Union Telegraph Co.,* 113 F. 2d 539, 541. To the federal statute and policy, conflicting state law and policy must yield."

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[4] The exception to application of state law to outcome determinative questions appears on page 78 of *Erie, supra* "Except in matters covered by the Federal Constitution or by Acts of Congress, the law to be applied in any case is the law of the state."

Article I, Section 8, Clause 8 of the United States Constitution provides that Congress has been granted the power ". . . [T]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." This exclusive and personal concept of patents was considered by Congress upon implementation of the Patent Act of 1952[3] and other legislation aimed at federal control of patent regulation. When an inventor or person holding patent rights desires to license or relinquish any part of the patent monopoly, such person is utilizing the monopoly of rights intended by the framers of the Constitution and the legislation of Congress to reward invention and originality. This monopoly conferred by federal statute as well as the policy perpetuating this monopoly, so affects the licensing of patents, and the policy behind such licensing is so intertwined with the sweep of federal statutes, that any question with respect thereto must be governed by federal law.

We are of the opinion that the question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold federal law applies to the question of the assignability of the patent license in question.

We agree with Kelley that we are here considering a specific policy of the patent law dealing with federal patent rights, and in that respect our problem does not involve the general state of Illinois contract law.

The long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement. *Troy Iron & Nail Factory* v. *Corning,* 55 U.S. 193 (1852); *Hapgood* v. *Hewitt,* 119 U.S. 226 (1886); *Lane & Bodley Co.* v. *Locke,* 150 U.S. 193 (1893); *Wood Harvester Co.* v. *Minneapolis Harvester Co.,* 61 F. 256 (8 Cir., 1894); *Bowers* v. *Lake Superior Contracting,* 149 F. 983 (8 Cir., 1906). See also *Deller's Walker on Patents,* Sec. 409 (2d Ed. 1965).

[3] 35 U.S.C. § 1 et seq.

In *Wood Harvester Co.* v. *Minneapolis Harvester Co., supra,* the license agreement said nothing pertaining to assignability. That Court said on page 258: ". . . I think the absence of any words of assignability in this license shows an intent to make it run to [licensees] alone, as clearly as if words of non-assignability had been incorporated therein." In post-Erie federal decisions, this rule of non-assignability has been unquestioned. *Rock-Ola Mfg. Corp.* v. *Filbin Mfg. Co.,* 168 F.2d 919 (8 Cir., 1948), cert. den. 335 U.S. 892.

This rule of non-assignability absent consent has been adhered to by state[6] and federal courts. We therefore hold the District Court was in error in departing from this well established rule.

We hold the nonexclusive license agreement which was, in fact, a forbearance of suit, here in question was personal, and that it was not assignable without Kelley's consent. Further, the attempted assignment by Unarco Industries, Inc. to Overhead Door was and is void.

The judgment of the District Court is

REVERSED.

A true Copy:

Teste:

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Clerk of the United States Court of Appeals for the Seventh Circuit.

[6] Although we need not consider state law, Illinois law is also well settled. The case of *Havana Press Drill Company* v. *Ashurst,* 148 Ill. 115, 35 N.E. 873 (1893) was not called to the attention of the District Court. In that case, a license was granted which was thereafter assigned. There was no statement in the license as to its assignability. The Illinois Supreme Court there stated: "In the present case the Drill Company had no authority to assign the license for two reasons, (1) because the license to it did not run to its assigns and was therefore merely personal. . . ." See also *Smith* v. *Preston,* 170 Ill. 179, 48 N.E. 588 (1897); *Rhodes* v. *Ashurst,* 176 Ill. 351, 52 N.E. 118 (1898).

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